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SPECIAL ANALYSIS

IRAN-IRAQ: Prospects for a Settlement

After six weeks of war, the outline of a mutually acceptable basis for a settlement has yet to emerge. With the war proving more difficult than expected, Baghdad already appears to be redefining victory in more modest terms to demonstrate flexibility and stimulate a settlement that could still plausibly be termed an Iraqi success. At this point, however, there is no sign of Iraqi give on the basic objective of control over the Shatt al Arab. From Baghdad's perspective, this will determine victory or defeat.

For Ayatollah Khomeini, a dialogue with Iraq is impossible as long as Iraqi President Saddam Hussein and the Baath Party rule in Baghdad. During his 14 years in Iraq, Khomeini developed a deep-seated animosity for the Baathists, whom he sees both as Sunni Arab oppressors of the country's majority Shias and as secular modernists with the same weaknesses as the Shah.

Iranian intransigence also is directly linked to the domestic political struggle for control of the revolution. The clerics have seized on the war--just as they have used the US hostages--to radicalize the revolution further and direct it against their opponents. Under the circumstances, President Bani-Sadr and others more inclined to look for a compromise will be reluctant to assume the "dove" role.

The long-term prospects for a settlement thus are likely to hinge on the continued ability of Khomeini and the clerics to capitalize on the strong national and religious sentiment aroused by the Iraqi invasion. Offsetting this will be the deprivations that the Iranian people will face if Iraq continues to disrupt most of the oil supplies to domestic refineries and a sizable percentage of Iran's normal port operations. We believe the Iranian capacity to endure hardship is considerable, however, and thus far there is little indication that Khomeini is being blamed for the war and its effects.

Saddam's Weakening Position

Iraq's failure to wrap up a quick military victory seriously threatens Saddam's hopes for regional leadership.

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He has not won solid Arab backing and has instead deepened the split among the Arab countries arrayed against Egypt and the Camp David accords. [ ]

Arabs in both camps see "Saddam's war" as hurting the Palestinian cause. Many of Iraq's conservative supporters do not want an Iraqi victory as much as simply an end to the fighting. [ ]

The war, meanwhile, has stimulated greater US presence in the Gulf and greater willingness of Gulf monarchies to accept a US security role, developments that prewar Iraqi policy sought to combat. [ ]

The domestic implications of a prolonged war are just as grim. The economy will suffer, and Sunni-Shia tension will mount. Plotting against Saddam is likely and, at a minimum, would bring about a more repressive period. [ ]

Saddam has two tactical approaches by which he can try to bring Iran around to renegotiating the Iran-Iraq border, especially the Shatt al Arab. He could soften his terms for settlement, or he could intensify the war in an effort to ensure maximum economic cost to Iran. A softening appears already under way. Intensification of the military effort is not now evident, but it is possible for Iraq to pursue both options simultaneously. [ ]

#### Minimum Demands

The war was intended to correct, at Iran's expense, Iraq's fundamental strategic deficiency--the lack of reliable and defensible maritime access to the Gulf. Iraq is not likely to negotiate seriously until it takes control of Khorramshahr and Abadan and, thereby, of the Shatt al Arab. When this occurs, a diplomatic peace offensive stressing an offer to trade Iraq's withdrawal for acknowledgment of its control of the Shatt is likely. [ ]

We cannot be certain if "control" in Iraq's eyes requires continued occupation of a border strip along the Shatt that includes Khorramshahr and Abadan. Virtually all the remaining territory seized by Iraq probably could be used as bargaining chips. [ ]

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Saddam might consider withdrawal from the area along the Shatt if the international situation were to turn against him, and if Iran were to agree to return the border in the Shatt to the low watermark on the Iranian side. He also could ask for UN supervision of a buffer zone.

Such a compromise would not solve Iraq's strategic problem because it would not significantly enlarge Iraq's land access to the Gulf and the Shatt would remain highly vulnerable to Iranian interdiction.

#### The Search for Iranian Flexibility

At this point, Iran probably would reject even the minimum Iraqi terms. Tehran has refused to discuss the Shatt dispute and demands a full Iraqi withdrawal from Khuzestan before there can be any talk of a cease-fire or possible mediation.

The Iraqi invasion nevertheless has had a sobering effect on Tehran. The clerics have accepted the return to duty of previously purged Army and Air Force officers and generally appear to have a better appreciation of the dangers of Iran's international isolation.

On the other hand, the war has not ended the infighting between the clerics and the more moderate secularists. In fact, Bani-Sadr probably further increased his political vulnerability by recently raising the possibility of Iranian territorial concessions. The creation of a Supreme Defense Council, although nominally headed by Bani-Sadr, was almost certainly an effort to circumscribe both his and the military's role in war policy.

Further military setbacks in Khuzestan, however, could cause problems for the clerics. Bani-Sadr already has charged that their purges of the military and the insertion of clerical committees in all units of the armed forces have weakened Iran's ability to resist.

The outlook is for continued Iranian intransigence and a protracted "people's war." The dire economic consequences of this policy could eventually induce Tehran to reconsider. For the time being, however, Khomeini and the clerics appear determined and able to continue the war in order to destroy Saddam and consolidate the revolution.

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